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D. A. STUART OIL CO., LIMITED

ANNUAL REPORT 1975



D.A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

M. BRUCE DEANS
ROBERT F. GASVODA
DANIEL GIANNINI, M.B.E.
GORDON McMILLAN, O.C.
STEPHEN P. OGRYZLO, Ph.D.
HERBERT W. SALTHOUSE
GEORGE G. SPEHN
JOHN C. STRADWICK, Sr.

Honorary Director

M. CLIFFORD DEANS

Officers of the Company

Chairman of the Board and Chief Executive Officer
DANIEL GIANNINI, M.B.E.

President and General Manager
GEORGE G. SPEHN

Vice-President — Manufacturing
ROBERT F. GASVODA

Vice-President and General Sales Manager
LUTHER P. BEGLEY

Treasurer and Assistant Secretary
HENRY E. PERKINS

Secretary and Assistant Treasurer
HERBERT W. SALTHOUSE

Transfer Agents and Registrars

NATIONAL TRUST COMPANY, LIMITED
21 KING STREET EAST
TORONTO, ONTARIO, M5C 1B3

D. A. STUART OIL CO., LIMITED
2727 S. TROY STREET
CHICAGO, ILLINOIS 60623

General Office:

2727 S. TROY STREET
CHICAGO, ILLINOIS 60623

Head Office:

SUITE 1105, 65 QUEEN STREET WEST
TORONTO, ONTARIO, CANADA M5H 2M5



REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS

Consolidated sales amounted to U.S. \$16.8 million compared with U.S. \$14.4 million for 1974 with a net profit of U.S. \$894 thousand as compared to U.S. \$712 thousand for the previous year, equivalent per share to \$1.96 and \$1.56 respectively.

Despite lower sales during the latter half of the year the results in the United States were improved over those of 1974. At this time, economic conditions indicate the recession has been curtailed; therefore, an upward trend is expected which should improve the sales and earnings of the company. The United States market will be the area in which your company will concentrate during the coming year. It is expected that the emphasis on sales and research will promote definite improvement in areas where our penetration has not been strong.

During the fiscal year quarterly dividends aggregating 60 cents and an extra dividend of 25 cents were paid per share (Canadian dollars) which amounted to \$387,818 (U.S. \$391,114).

Earlier reports to the shareholders have referred to the action instituted by the company in the United States Federal Court for the Eastern District of Michigan to recover damages from and obtain injunctive relief against former executives and employees of the company. The main action for damages will be before the Federal Court during 1976.

Your company's wholly owned subsidiary, Canadian D. A. Stuart Oil Co. Limited, generated another year of record sales and earnings. This company has tripled its sales and profits over the past five years and it is expected to show further progress this year.

The company's wholly owned English subsidiary, D. A. Stuart Oil Co. Limited, also attained record sales and profits for the past fiscal year. This accomplishment is remarkable in view of the many difficulties resulting from the unsettled economic conditions in the United Kingdom. It is hoped the economy of the country will stabilize whereby this company will be able to capitalize on improved industrial conditions. During the year this subsidiary improved its plant and should be in an excellent position for growth.

In Germany your 50% owned subsidiary, D. A. Stuart Oil GmbH, despite an increase in sales, had costs which were in excess of those expected thus creating a loss of \$20,000. Most of the sales have been in the export market. In view of these results, costs and selling prices will be strictly monitored with a concentrated sales effort being made in Germany.

During the latter part of the year under review, your directors, after much consideration, deemed it prudent to withdraw your company's active participation in its wholly owned subsidiary, D. A. Stuart Oil Co. (Arg.) S.A.I.C. That company found it difficult, being classified as a foreign organization, to operate in Argentina. Stuart's interest in that company was sold outright to key employees of that company and this course of action should be more beneficial to both parties. A royalty agreement has

D. A. STUART OIL CO., LIMITED

Serving the metal working industry for over 100 years

been entered into with that company, which will continue to operate in the name under which it was incorporated, thereby keeping the name of Stuart alive in Argentina.

The progress by the company with royalty arrangements is developing to the level that it has now become a significant part of our operations. It is our intention to develop further in this area.

At a meeting of directors on January 24, 1975, Mr. M. Bruce Deans was appointed a director replacing M. Clifford Deans, who had been a member of the board since 1953, and during those years his contribution by way of advice and guidance in the affairs of the company gained him the high regard and appreciation of his fellow directors. Mr. M. C. Deans will continue to be associated with the company as an Honorary Director.

Gordon McMillan, Q.C., who has been a director since 1936, has indicated his wish to retire at the Annual Meeting. The directors acknowledge with warm appreciation the valuable counsel he has given and his keen interest in the welfare of the company through the years. To fill the vacancy, Christopher T. Loughrin has agreed to stand for nomination as a director at the forthcoming meeting of shareholders. Mr. Loughrin is a partner in the Toronto law firm of McMillan, Binch and during the past few years has dealt with legal matters for our company.

CURRENT OPERATIONS

Management is keenly aware of the need for the development of new products which will meet the requirements, not only of the metalworking industry but also of environmental regulations so that on the disposal of used materials the ecology will not be damaged. New products have been formulated which are proving to have these desired qualities. Other formulations are being field tested at this time. As part of our ongoing environmental programme our research department continues to carry out tests for improved methods for the reclamation of oils.

We have experienced a year of genuine progress not only in our financial position but also in the strengthening of personnel as well as improvements in the various plants throughout the organization. For the coming year we fully expect to continue the pattern set in the last year.

Our sincere appreciation is extended to all employees for their enthusiasm, fine work and support, which has contributed to the advances made by the company in the past year.

On behalf of the Board

DANIEL GIANNINI
Chairman and Chief Executive Officer

GEORGE G. SPEHN
President and General Manager

Toronto, Canada
August 27, 1975



D. A. STUART OIL CO., LIMITED
(Incorporated under the laws of Ontario)
AND ITS WHOLLY OWNED SUBSIDIARIES

ASSETS

Current Assets	1975	1974
Cash and deposit receipts	\$ 307,416	\$ 237,245
Accounts receivable (note 2)	1,918,712	2,573,811
Inventories	2,078,531	2,231,569
Drums, other containers and supplies	126,773	141,141
Advances and prepaid expenses	141,534	157,758
	<u>4,572,966</u>	<u>5,341,524</u>
Marketable securities , at cost (quoted market value 1975, \$15,248; 1974, \$17,556)	<u>34,308</u>	<u>34,308</u>
Other investments (note 3)	<u>64,400</u>	<u>200,780</u>
Life insurance , cash surrender value net of policy loan of \$38,978 in 1974	<u>55,790</u>	<u>11,114</u>
Fixed assets , at cost (note 4)		
Land, buildings and equipment	3,356,622	3,295,644
Less accumulated depreciation	1,961,170	1,891,480
	<u>1,395,452</u>	<u>1,404,164</u>
	<u>\$6,122,916</u>	<u>\$6,991,890</u>

Approved by the Board

D. GIANNINI, Director.

GEORGE G. SPEHN, Director.

AUDITORS

To the Shareholders of
D. A. Stuart Oil Co., Limited

We have examined the consolidated balance sheet of D. A. Stuart Oil Co., Limited and its wholly owned subsidiaries as at May 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada
August 8, 1975

CONSOLIDATED BALANCE SHEET — MAY 31, 1975

(with comparative figures at May 31, 1974)

Expressed in United States currency

LIABILITIES

Current Liabilities	1975	1974
Bank advances, secured	\$ 69,643	\$ 171,586
Accounts payable and accrued liabilities	893,170	1,635,088
Income taxes payable	287,391	525,926
Other taxes payable	75,079	105,515
Dividend payable	66,638	47,419
Liability for returnable containers	79,783	71,288
Principal due within one year on long-term debt		120,000
	<u>1,471,704</u>	<u>2,676,822</u>
Long-term debt		<u>185,000</u>
Deferred income taxes	<u>55,734</u>	<u>37,362</u>

SHAREHOLDERS' EQUITY

Capital stock		
Authorized — 800,000 common shares of no par value		
Issued — 456,256 shares	424,608	424,608
Retained earnings (note 5)	<u>4,170,870</u>	<u>3,668,098</u>
	<u>4,595,478</u>	<u>4,092,706</u>
	<u>\$6,122,916</u>	<u>\$6,991,890</u>

Contingent liabilities (note 7)

REPORT

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated (note 1(d)).

THORNE RIDDELL & CO.

Chartered Accountants



D. A. STUART OIL CO., LIMITED
AND ITS WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

Year ended May 31, 1975

(with comparative figures for 1974)
Expressed in United States currency

	1975	1974
Sales	\$16,779,499	\$14,386,856
Cost of sales	12,190,033	10,173,331
Gross margin	4,589,466	4,213,525
Selling and administrative expenses	2,774,226	2,598,337
Interest on long-term debt	16,147	48,468
	2,790,373	2,646,805
	1,799,093	1,566,720
Allowance for share of loss of 50% owned company	20,000	
Income from continuing operations before income taxes	1,779,093	1,566,720
Income taxes		
Current	896,699	776,941
Deferred	18,372	21,662
	915,071	798,603
Income from continuing operations	864,022	768,117
Loss from discontinued operations (note 1(a))	(23,368)	(56,588)
Less gain on sale of shares of Argentinian subsidiaries	53,232	
	29,864	(56,588)
Net income for the year	\$ 893,886	\$ 711,529
Earnings per share		
Income from continuing operations	\$1.89	\$1.68
Net income for the year	\$1.96	\$1.56

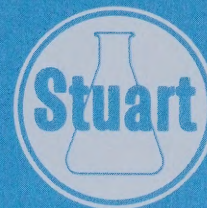
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended May 31, 1975

(with comparative figures for 1974)
Expressed in United States currency

	1975	1974
Balance at beginning of year		
As previously reported	\$ 3,776,802	\$ 3,226,640
Adjustment for change in accounting for fixed assets (note 1(d))	108,704	108,704
As restated	3,668,098	3,117,936
Net income for the year	893,886	711,529
	4,561,984	3,829,465
Dividends* (85¢ per share in 1975; 35¢ per share in 1974)	391,114	161,367
Balance at end of year	\$ 4,170,870	\$ 3,668,098

*Dividends were declared in Canadian funds 1975, 85¢ per share and 1974, 35¢ per share.
Amounts shown above are stated in U.S. funds.



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended May 31, 1975

(with comparative figures for 1974)
Expressed in United States currency

Working capital derived from	1975	1974
Operations		
Income from continuing operations	\$ 864,022	\$ 768,117
Items not involving working capital		
Depreciation	139,734	138,403
Loss (gain) on disposal of fixed assets	(7,994)	6,966
Deferred income taxes	18,372	21,662
Allowance for share of loss of 50% owned company	20,000	
	1,034,134	935,148
Decrease in advances to other companies	11,245	4,430
Sale of fixed assets	14,406	14,086
Decrease in investment in and advances to 50% owned company	105,135	
Loan on life insurance, cash surrender value		38,978
Net proceeds from sale of shares of subsidiary companies plus their working capital deficiency of \$74,029	84,029	
	<u>1,248,949</u>	<u>992,642</u>
Working capital applied to		
Loss from discontinued operations	23,368	56,588
Dividends	391,114	161,367
Additions to fixed assets	168,231	129,188
Decrease in non-current portion of long-term debt	185,000	310,000
Increase in investment in and advances to 50% owned company		2,237
Life insurance, cash surrender value	5,698	7,154
Repayment of loan on life insurance	38,978	
	<u>812,389</u>	<u>666,534</u>
Increase in working capital	436,560	326,108
Working capital at beginning of year	2,664,702	2,338,594
Working capital at end of year	<u>\$3,101,262</u>	<u>\$2,664,702</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended May 31, 1975

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary companies Canadian D. A. Stuart Oil Co. Limited and D. A. Stuart Oil Co. Limited (English subsidiary).

The Argentinian subsidiary company D. A. Stuart Oil Co. (Argentina) S.A.I.C. and its subsidiary D. A. Stuart Oil Co., S.R.L. were sold effective May 31, 1975, and accordingly the assets and liabilities of these companies have not been included in the consolidated balance sheet of the company as at May 31, 1975. The 1975 statement of income reflects the results of operations of these Argentinian companies as a single line item "Discontinued operations" and the figures for 1974 previously reported in the consolidated statements of income and changes in financial position have been restated to accord with the 1975 classifications.

(b) Basis of Translation

The company operates principally in the United States and the accompanying financial statements are expressed in United States currency. Assets, liabilities, and revenues and expenses maintained in other than U.S. currency have been translated to United States dollars at the following rates of exchange.

(i) Current assets and liabilities, at exchange rates prevailing May 31, 1975.



D. A. STUART OIL CO., LIMITED
AND ITS WHOLLY OWNED SUBSIDIARIES

- (ii) Fixed assets, capital stock and earnings accumulated prior to June 1, 1964 on the basis of U.S. \$1 = Canadian \$1 and U.S. \$2.80 = £1.
- (iii) Income, expenses and changes in non-current assets and liabilities at average rates in effect annually during the years since June 1, 1964 except for the accounts of the Argentina subsidiary which is translated at exchange rates prevailing at the year end.
- (iv) Gains or losses on translation of foreign currency are recognized during the year in the statement of income.
- (c) Inventories
Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.
- (d) Fixed Assets
All fixed assets are recorded in the accounts at cost. In prior years the company recorded certain fixed assets related to their United States operations at appraised values. In order to account for all fixed assets on a similar basis the company has adjusted the fixed asset accounts (cost and accumulated depreciation) on a retroactive basis to remove the appraisal from the accounts.
Depreciation is recorded principally on a straight-line basis to amortize the cost of fixed assets over their estimated useful life. The rates range from 2½% on buildings to 25% on certain automotive equipment.
- (e) Investments
The company accounts for its 50% investment in D. A. Stuart Oil GmbH at cost less allowance for losses.
Marketable securities are held for long-term investment purposes and are carried at cost.
- (f) Income Taxes
The company charges income with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in excess of related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as "Deferred income taxes".

2. ACCOUNTS RECEIVABLE

Including in accounts receivable are advances to employees who are also shareholders in the amount of \$10,802 (1974, \$14,254).

3. OTHER INVESTMENTS

	<u>1975</u>	<u>1974</u>
Investment in and advances to 50% owned company		
Shares, at cost	\$ 65,495	\$ 65,495
Advances	69,078	554,492
	<u>134,573</u>	<u>619,987</u>
Allowance for share of losses of 50% owned company	72,106	432,385
	<u>62,467</u>	<u>187,602</u>
Advances to other company	1,933	13,178
	<u>\$ 64,400</u>	<u>\$ 200,780</u>

During the year certain of the advances made to the 50% owned company, D. A. Stuart GmbH were forgiven. The advances forgiven were charged against prior years allowance for losses.

4. FIXED ASSETS

	<u>1975</u>		<u>1974</u>
	<u>Asset value</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	\$ 224,154		\$ 224,154
Buildings and railway sidings	1,268,316	\$ 488,815	779,501
Factory equipment	1,446,483	1,130,236	316,247
Office and laboratory equipment	306,920	261,911	45,009
Automotive equipment	110,749	80,208	30,541
	<u>\$3,356,622</u>	<u>\$1,961,170</u>	<u>\$1,395,452</u>
			<u>\$1,404,164</u>

5. RETAINED EARNINGS

Dividends from the English subsidiary are subject to exchange control authorization, which is usually granted, and withholding taxes at time of payment.

6. OTHER STATUTORY INFORMATION

The following are reflected in net income for the year:

	1975	1974
Depreciation	\$ 139,734	\$ 138,403
Remuneration of directors and senior officers (as defined by The Business Corporations Act)		
Directors and officers	\$ 237,900	\$ 207,655
Other employees	78,262	110,285
	\$ 316,162	\$ 317,940

7. CONTINGENT LIABILITIES

The company has provided guarantees to a maximum of \$451,290 for bank loans and long-term mortgage loans of the 50% owned company, D. A. Stuart Oil GmbH. As at May 31, 1975 the loans amounted to \$400,090. Of the guarantees provided on behalf of the 50% owned company by D. A. Stuart \$128,940 has been guaranteed to Stuart by the owner of the other 50% of the company.

The company is also contingently liable for other guarantees amounting to \$34,000.

8. PENSION PLAN

Current pension costs are charged to operations each year. Past service costs are being amortized over thirty years.

At May 31, 1975 the most recent actuarially computed present value of the company obligations for unfunded past service costs approximated \$448,464 after deducting \$27,991 charged to operations for the year.

TEN YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Income before income taxes	Income taxes	Net income (loss) for the year	Dividends declared	Income retained
1975	\$16,779,499	\$1,808,957 (2)	\$ 915,071	\$ 893,886	\$ 391,114	\$ 502,772
1974	14,386,856	1,510,132 (2)	798,603	711,529	161,367	550,162
1973	13,263,875	904,111 (1)	579,909	324,202	92,118	232,084
1972	12,572,479	395,879 (1)	400,347	(4,468)	90,722	(95,190)
1971	13,435,957	336,917 (1)	357,681	(20,764)	179,381	(200,145)
1970	14,357,067	1,013,499 (1)	748,848	264,651	275,697	(11,046)
1969	13,703,661	1,169,990 (1)	730,978	439,012	254,821	184,191
1968	11,331,133	821,732	457,888	363,844	285,272	78,572
1967	10,636,223	1,083,039	511,218	571,821	221,904	349,917
1966	10,459,046	1,179,698	561,679	618,019	211,760	406,259

(1) After reduction for extraordinary items of \$26,380 in 1973; \$116,286 in 1972; \$23,027 in 1971; \$23,703 in 1969; \$21,418 in 1968.

(2) After reduction for loss on discontinued operations of \$23,368 in 1975; \$56,588 in 1974 and gain on sale of shares of Argentinian subsidiaries of \$53,232 in 1975.

UNITED STATES AND INTERNATIONAL OPERATIONS



1

INTERNATIONAL
ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co. Limited
GERMANY, Langenselbold
D. A. Stuart Oil GmbH
ITALY, Milan
Stuart Oil Italiana S.p.A.
JAPAN, Tokyo
Takata & Co. Ltd.
SOUTH AFRICA
Lasatche (Proprietary) Ltd.
Johannesburg
SWEDEN, Goteborg
D. A. Stuart Oil Nordiska AB

2

DISTRIBUTORS
ATLANTA, Ga.
Cowan Supply Company
BIRMINGHAM 2, Ala.
Young & Vann Supply
DENVER, Colo.
Union Supply Co.
GREENVILLE, Miss.
KANSAS CITY, Mo.
Dens-Oil Lubricant Company
MINNEAPOLIS, Minn.
The Satterlee Company
OKLAHOMA CITY, Okla.
Hart Industrial Supply
PORTLAND, Maine
Loren Dyer Co., Inc.
PORTLAND, Oregon
Davis Industrial Products
SAN MATEO, California
Bay City Oil Company
SEATTLE, Washington
Seaport Supply Company
TAMPA, Florida
Tool & Die Supply Company
TULSA, Oklahoma
Krisman Industrial Supply

3

MANUFACTURING
CHICAGO, Illinois
D. A. Stuart Oil Co., Limited
INDIANAPOLIS, Indiana
D. A. Stuart Oil Co., Limited
NORTHVILLE, Michigan
D. A. Stuart Oil Co., Limited
SOMERVILLE, New Jersey
D. A. Stuart Oil Co., Limited
SCARBOROUGH, Ontario, Canada
Canadian D. A. Stuart Oil Co. Limited
ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co., Limited
GERMANY, Langenselbold
D. A. Stuart Oil GmbH

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WAREHOUSES
DALLAS, Texas
Blue Chip Delivery, Inc.
DAYTON, Ohio
Lewis & Michael Inc.
HOUSTON, Texas
Palmer Whse. & Trans. Co.
INDIANAPOLIS, Indiana
Merchandise Warehouse Company
SYRACUSE, New York
Robert M. Haley Warehouse

5

BLENDING & SERVICE CENTRES
BROOK PARK, Ohio
CHICAGO, Illinois
INDIANAPOLIS, Indiana
LIVONIA, Michigan
LOS ANGELES, California
NORTHVILLE, Michigan
SOMERVILLE, New Jersey
SOUTH WINDSOR, Connecticut



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EUROPEAN DISTRIBUTORS

AUSTRIA, Vienna
A. Johnson & Co.
FINLAND, Helsinki
Oy Teknoma, AB
FRANCE, Paris
A. Johnson & Cie
ITALY, Milan
Stuart Oil Italiana S.p.A.
NORWAY
Avimar A/S
PORTUGAL, Lisbon
SIOL
SPAIN, Madrid
MecanOil, S.A.
SWEDEN, Goteborg
D. A. Stuart Oil Nordiska AB
SWITZERLAND, Berne
Milloil GmbH
YUGOSLAVIA, Krusevac
Fabrica Ulja i Maziva

